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Release No. 42972

(Cite as: 2000 WL 796110 (S.E.C. Release No.))

Securities and Exchange Commission (S.E.C.)
*1 Securities Exchange Act of 1934

IN THE MATTER OF MALCOLM MCGUIRE III, RESPONDENT.
Administrative Proceeding File No. 3-10239
June 21, 2000

ORDER INSTITUTING PUBLIC ADMINISTRATIVE PROCEEDINGS PURSUANT TO SECTIONS
15(b)(6) AND 19(h) OF THE SECURITIES EXCHANGE ACT OF 1934, MAKING FINDINGS AND
IMPOSING REMEDIAL SANCTIONS

I.

The Securities and Exchange Commission ("Commission") deems it appropriate in the public interest and for the protection of investors that a public administrative proceeding be, and hereby is, instituted pursuant to Sections 15(b)(6) and 19(h) of the Securities Exchange Act of 1934 ("Exchange Act") against Respondent Malcolm McGuire III ("McGuire").

II.

In anticipation of the institution of these administrative proceedings, Respondent has submitted an Offer of Settlement (the "Offer") which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission or in which the Commission is a party, Respondent consents to the entry of this Order Instituting Public Administrative Proceedings Pursuant to Sections 15(b)(6) and 19(h) of the Securities Exchange Act of 1934, Making Findings and Imposing Remedial Sanctions (the "Order").

III.

On the basis of this Order and the Respondent's Offer, the Commission makes the following findings:

A. Respondent, during all times relevant hereto, was a person associated with a registered broker-dealer.

B. On May 12, 2000, by Respondent's consent, the United States District Court for the District of New Jersey, in an action styled S.E.C. v. Kern, et al., Civil Action No. 96-3746 (filed August 6, 1996), entered a Final Judgment that permanently enjoined Respondent from violating Section 17(b) of the Securities Act of 1933.

IV.

Based on the foregoing, the Commission deems it appropriate in the public

(Cite as: 2000 WL 796110, *1 (S.E.C. Release No.))

interest and for the protection of investors to accept the Respondent's Offer and to impose the remedial relief specified in the Offer.

Accordingly, IT IS ORDERED, that Respondent Malcolm McGuire III be, and hereby is, suspended from association with any broker or dealer for a period of six months, effective on the second Monday following the entry of this Order.

IT IS FURTHER ORDERED that Respondent shall provide to the Commission, within 30 days after the end of the six-month suspension period described above, an affidavit that he has complied fully with the sanctions described in this Order.

By the Commission.

Jonathan G. Katz

Secretary

Release No. 42972, 2000 WL 796110 (S.E.C. Release No.)

END OF DOCUMENT

[Home](#) | [Previous Page](#)**U.S. Securities and Exchange Commission****SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.****Litigation Release No. 16847 / January 2, 2001**

SECURITIES AND EXCHANGE COMMISSION v. ALLAN G. KERN, YALE HIRSCH, and MALCOLM MCGUIRE III, United States District Court for the District of New Jersey, Civil Action No. 96-3746 (HAA).

The Commission today announced that the United States District Court for the District of New Jersey has entered a Final Judgment against Malcolm McGuire III, concluding the above-captioned litigation. McGuire agreed to settle the Commission's action against him by consenting to the entry of the Final Judgment which: (a) permanently enjoins McGuire from violating Section 17(b) of the Securities Act of 1933 ("Securities Act"); (b) imposes \$19,885.10 in disgorgement and prejudgment interest but waives payment of that amount based on McGuire's sworn statements demonstrating his inability to pay; and (c) does not impose civil penalties based on McGuire's inability to pay. The Honorable Harold A. Ackerman issued the Final Judgment against McGuire on May 16, 2000.

On June 12, 2000, the Commission entered a settled Order Instituting Public Administrative Proceedings Pursuant to Sections 15(b)(6) and 19(h) of the Securities Exchange Act of 1934, Making Findings and Imposing Remedial Sanctions ("Order") against McGuire. McGuire consented to the Order, which is based on entry of the United States District Court injunction. The Order bars McGuire from association with any broker or dealer for six months.

The sanctions against McGuire stem from his publication, while a registered representative, of two research reports concerning Davstar Industries, Ltd., a start-up manufacturer of medical products ("Davstar"). McGuire prepared and disseminated those research reports to his customers and others without disclosing that he had received warrants to purchase Davstar common stock directly from the company and shares of Davstar common stock from his co-defendant Allan G. Kern, a former consultant to and employee of Davstar.

Prior to the Commission's settlement with McGuire, it had reached settlements with McGuire's two co-defendants, Allan G. Kern and Yale Hirsch. The Commission's Complaint against Kern, Hirsch, and McGuire alleged that they had participated in a scheme between May 1991 and November 1992 to artificially inflate the price of Davstar stock, in exchange for Davstar warrants and other consideration. According to the Complaint, the defendants artificially inflated the price of Davstar common stock during this period from approximately \$1.00 to a high of \$13.75 per share in November 1992. The Complaint alleged that each defendant

received Davstar stock or warrants as compensation to promote Davstar to the investing public and, therefore, stood to realize personal financial gain from an increase in Davstar's stock price.

Hirsch, without admitting or denying the allegations in the Commission's Complaint, consented to entry of a Final Judgment that (a) permanently enjoins Hirsch from violating Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") and Rule 10b-5 thereunder, and Section 17(b) of the Securities Act; (b) imposes \$127,007 in disgorgement and prejudgment interest; and (c) does not impose civil penalties based on Hirsch's sworn financial statement showing his inability to pay a penalty. Judge Ackerman issued the Final Judgment against Hirsch on February 17, 2000.

Kern, without admitting or denying the allegations in the Commission's Complaint, consented to entry of a Final Judgment that (a) permanently enjoins him from violating Section 10(b) of the Exchange Act, and Rule 10b-5 thereunder; (b) imposes \$13,036 in disgorgement and prejudgment interest; and (c) imposes a civil penalty of \$50,000. Judge Ackerman issued the Final Judgment against Kern on March 19, 1999.

For further information see Admin. Proc. File Nos. 3-8891 and 3-10239, and Litigation Releases No. 36560 (December 7, 1995); 15000 (August 6, 1996); and 15001 (August 6, 1996).

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Modified:01/02/2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.

LITIGATION RELEASE NO. 15153 / November 7, 1996

SECURITIES AND EXCHANGE COMMISSION v. CHARLES O. HUTTOE, ET AL.,
Civil Action No. 96-CV-02543 (GK) (D.D.C.)

The Securities and Exchange Commission ("Commission") announced the filing today of a Complaint and Applications for a Temporary Restraining Order, Preliminary Injunction and other emergency relief against Charles O. Huttoe ("Huttoe"), Huttoe & Associates, Inc., Word Corporation, National Trading Services, Inc. ("NTSI"), Karen Purvis, also known as Karen Purvis Huttoe ("Purvis"), Tammy Jo Perkins ("Perkins"), Josephine Brooks ("Brooks"), SGA Goldstar Research Inc. ("SGA"), Theodore R. Melcher, Jr. ("Melcher"), Shannon B. Terry ("Terry"), Systems of Excellence, Inc. ("SOE"), Alpha Securities Ltd. ("Alpha"), and Dunbar Holdings Ltd. ("Dunbar") in the United States District Court for the District of Columbia. The Complaint alleges a massive and ongoing market manipulation orchestrated by Huttoe, Chairman of the Board and Chief Executive Officer of SOE, a manufacturer and distributor of video teleconferencing equipment with offices in McLean, Virginia and Coral Gables, Florida. The Commission alleges that Huttoe secretly distributed millions of SOE shares to his family members and corporations, manipulated the market by issuing false favorable information concerning SOE and its business, and then sold his shares into the inflated market.

In particular, according to the Commission, as the first part of that scheme Huttoe executed an unregistered distribution of tens of millions of shares of SOE stock by causing a series of false purported Form S-8 registration statements to be submitted to SOE's transfer agent beginning in March, 1995. Huttoe secretly issued millions of those unregistered but unrestricted and free trading SOE shares to various Huttoe family members and entities that served as Huttoe's nominees, including defendants Word Corporation, NTSI, Purvis (his wife), Brooks (his mother) and Perkins (his niece). According to the Commission, as the second step in the scheme, Huttoe artificially inflated the price of SOE shares by issuing a series of materially false and misleading press releases that, among other things, announced nonexistent multimillion dollar sales of SOE products, an acquisition that had not occurred, and revenue projections for SOE that were without any basis. The Complaint also alleges that as further efforts to inflate the price of SOE securities, Huttoe caused SOE to fail to file required periodic reports and to file false periodic reports with the Commission, and bribed SGA with stock to recommend SOE to subscribers to SGA's electronically disseminated tout sheet. The Commission alleges that Huttoe caused unregistered but free trading shares to be issued to Melcher and Terry, SGA's principals, some of which were issued in the names of Alpha and Dunbar, entities they control. The[]

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Complaint further alleges that as the third step in the scheme, Huttoe, Melcher, and Terry then took advantage of the inflated

market for SOE stock that they had created by dumping their own SOE stock on unwitting investors. The Commission alleges that those sales were timed to take advantage of the false news concerning SOE, and were heaviest when SOE stock reached its highs in June, 1996. The Commission alleges that as a result of this scheme, the defendants obtained illegal proceeds of more than \$10 million.

The complaint further alleges that Huttoe engaged in a massive coverup after SOE's auditors discovered evidence of his unregistered distribution of securities, and raised questions concerning it in mid-September, 1996. The Complaint alleges that over the course of the weekend of September 21-22, 1996, Huttoe orchestrated the fabrication and forgery of fraudulent "consulting agreements" that purported to be the consideration for nearly 40 million shares that had been issued pursuant to purported Form S-8 registration statements. The Complaint alleges that Huttoe retained a new auditor for SOE that Saturday, and that on the same day the new auditor rendered a clean opinion on SOE's financial statements. The Complaint alleges that on Monday, September 23 SOE filed a materially false Form 10-K that included the false accountant's report, and a materially false Form 10-Q. The Complaint alleges that the following day SOE filed sixteen materially false registration statements on Form S-8 that purported to cover the shares distributed months before, and that included as attachments the forged "consulting agreements."

As a result, the Complaint alleges that Huttoe violated Sections 5 and 17(a) of the Securities Act of 1933 ("Securities Act"), Sections 10(b), 13(b)(5), and 16(a) of the Securities Exchange Act of 1934 ("Exchange Act"), and Rules 10b-5, 13b2-1, 13b2-2, 16a-2, and 16a-3 thereunder; Huttoe & Associates, Inc., Word Corporation, and NTSI violated Sections 5 and 17(a) of the Securities Act and Section 10(b) of the Exchange Act, and Rule 10b-5 thereunder; Purvis, Perkins, and Brooks violated Section 5 of the Securities Act; SGA, Melcher, Terry, Dunbar, and Alpha violated Sections 5, 17(a) and 17(b) of the Securities Act and Section 10(b) and Rule 10b-5 of the Exchange Act; and SOE violated Sections 5 and 17(a) of the Securities Act and Sections 10(b), 13(a), and 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act, and Rules 10b-5, 12b-20, 13a-1, 13a-11, and 13a-13 thereunder. The Commission applied to the Court for orders that would, among other things, temporarily restrain defendants from violating the federal securities laws; temporarily freeze assets and accounts of defendants other than SOE; require Huttoe to temporarily surrender his passport and refrain from foreign travel; and direct defendants, other than SOE, to file an accounting. The Complaint seeks permanent injunctions against violations of the relevant provisions of the securities laws by

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defendants and disgorgement by defendants of illegal gains, together with prejudgment interest.□

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On October 7, 1996, the Commission issued an Order suspending trading in SOE securities for ten days. See Securities Exchange Act Rel. No. 37791 (October 7, 1996). The Commission's investigation in this matter is continuing.□□

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.

LITIGATION RELEASE NO. 15185 / December 12, 1996

SECURITIES AND EXCHANGE COMMISSION v. CHARLES O. HUTTOE, ET AL.,
Civil Action No. 96-02543 (GK) (D.D.C.)

The Securities and Exchange Commission ("Commission") announced today that it is seeking to amend the Complaint previously filed against Charles Huttoe, and other defendants alleging the fraudulent manipulation of the market for the securities of Systems of Excellence, Inc. ("SOE"). The proposed amended Complaint names twenty-one individuals and entities as Relief Defendants for the purpose of securing the disgorgement of more than \$12 million in illegal profits that the Commission alleges was obtained from the sale of SOE securities by Huttoe, members of his family and entities he controls (collectively the "Huttoe defendants"). The Commission is also seeking an emergency Order freezing assets of the proposed Relief Defendants. The proposed amended Complaint also adds additional claims against defendants SGA Goldstar Research, Inc., Theodore Melcher, Shannon B. Terry, Alpha Securities Ltd. and Dunbar Holdings, Ltd. (collectively the "Goldstar defendants").

The Commission has previously alleged that the Goldstar defendants were bribed with stock to recommend SOE to subscribers to the SGA Goldstar Whisper Stock report, a tout sheet that they disseminated over the internet and otherwise. The Commission also alleged that they took advantage of the inflated market for SOE stock that they had created by dumping their own stock on unwitting investors. In the proposed amended Complaint, the Commission alleges that from in or around 1991 and continuing through the present, the Goldstar defendants engaged in a systematic practice of publishing promotional coverage for other issuers in exchange for compensation. The proposed amended Complaint alleges that the Goldstar defendants failed to disclose either their compensation or whether they were selling their own shares while they were recommending that subscribers to their newsletter invest. The proposed amended Complaint seeks an order requiring the Goldstar defendants to disgorge their illegal gains from all of that activity together with prejudgment interest, as well as an injunction against violations of Sections 5, 17(a) and 17(b) of the Securities Act of 1933, Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder.

According to the Commission, the proposed Relief Defendants are the beneficiaries of a massive effort by Huttoe to dissipate and secrete his illegal profits that proceeded at an accelerating pace in the last several weeks before the Commission's Complaint was filed. According to the Commission, more than \$8 million of the illegal profits obtained by Huttoe and his nominees can be

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traced to the proposed Relief Defendants, who the Commission alleges were not bona fide recipients of the funds or otherwise entitled to retain them. The Commission has also applied to the Court for an emergency Order that would freeze the assets that were transferred to the proposed Relief Defendants and require an accounting. The proposed amended Complaint seeks an order requiring all of the Relief Defendants to disgorge all proceeds

traceable to Huttoe's fraudulent sales of unregistered SOE stock, together with prejudgment interest. The proposed Relief Defendants are Nancy Ellis, also known as Nancy Ellis Davis and also known as Nancy Davis, Jack Weinstein, Nancy Weinstein, Adobe Galleries Inc. d/b/a Tower of Jewels, Loretta Davis, Barclay Davis, William Daw, Sonya Daw, Mary Jane Hubbard, David Goldstein, Starlog Franchise Corp., Hope Associates, L.L.C., Michael Michaelson, Raymond J. Markman, Herman Rush, Mark Savel, George Holsten, J.S. Holdings, Inc., Jeffrey Szur, Lynda Lou Kane, also known as Lynda Lou Kraft and Investors Associates, Inc. According to the Commission, proposed Relief Defendants J.S. Holdings, Szur, Kane and Investors Associates are related directly or indirectly to the brokers through which the Huttoe defendants executed their sales of SOE stock.

The Commission originally filed a Complaint and an application for a temporary restraining order freezing assets, requiring and accounting, permitting expedited discovery and other emergency relief on November 7, 1996. The Honorable Judge Kessler granted the Commission's motion for a Temporary Restraining Order and other emergency relief that day, and scheduled a Preliminary Injunction hearing that has now been set for January 21, 1997. See SEC v. Huttoe, et al., Lit. Rel. 15153 (November 7, 1996). On October 7, 1996, the Commission issued an Order suspending trading in SOE securities for ten days. See Securities Exchange Act Rel. No. 37791 (October 7, 1996).

The Commission's investigation in this matter is continuing.□□

U.S. SECURITIES AND EXCHANGE COMMISSION

LITIGATION RELEASE NO. 15237 / January 31, 1997

SECURITIES AND EXCHANGE COMMISSION v. CHARLES O. HUTTOE, ET AL.,
Civil Action No. 96-02543 (GK) (D.D.C.)

UNITED STATES v. CHARLES O. HUTTOE, Cr. 96-429-A (JC) (E.D.Va.)

The Securities and Exchange Commission announced that the Honorable James C. Catheris, United States District Judge for the Eastern District of Virginia, today sentenced Charles O. Huttoe ("Huttoe"), formerly the Chairman and Chief Executive Officer of Systems of Excellence, Inc. ("SOE") to a federal prison term of 46 months followed by 2 years supervised release and a \$10,000 fine. Huttoe was sentenced pursuant to a criminal information charging him with one count of securities fraud in violation of Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and one count of money laundering in violation of 18 U.S.C. § 1957. Huttoe entered into a plea agreement with the government on November 13, 1996. Both the criminal information and the plea agreement were filed under seal and remained sealed until late yesterday.

On November 7, 1996, the Commission obtained a Temporary Restraining Order ("TRO") against Huttoe and others based on a complaint alleging a massive securities fraud at SOE. The TRO among other things prohibited ongoing violations of the securities laws, froze Huttoe's assets and prohibited him from traveling outside the United States. The criminal case against Huttoe was the result of a coordinated investigative effort by the Commission, the U.S. Attorney's Office for the Eastern District of Virginia and the Internal Revenue Service - Criminal Investigation Division from Northern Virginia and Las Vegas, Nevada. Huttoe's plea agreement requires that he cooperate in ongoing investigations conducted by the U.S. Attorney's Office and the Securities and Exchange Commission.

The criminal information alleged that, in connection with the securities fraud count, from March 1995 through September 1996, Huttoe, in his capacity as Chairman and CEO of SOE, directed and controlled a massive distribution of the company's stock. In particular, the criminal information alleges that Huttoe distributed approximately 11 million shares of unregistered SOE stock to certain nominees, including three of his relatives, under his control. Although fraudulently created documents indicated that the shares had been issued to Huttoe's nominees in exchange for services rendered to the company, in fact these nominees did not provide such services to SOE. The criminal information further states that, pursuant to a scheme to manipulate the market price of SOE stock, after the issuance of a number of false press releases which caused an increase in the price of the stock, Huttoe directed the sale of the shares issued

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to his nominees. According to the information Huttoe realized millions of dollars of trading profits as a result of the sale of the nominee shares. In connection with the money laundering

count, the criminal information further alleged that Huttoe subsequently transferred approximately \$7.55 million of the trading profits from brokerage accounts opened in the names of the nominees to at least four different bank accounts opened in the names of the nominees. Thereafter, Huttoe transferred approximately \$7.3 million from these accounts to an account at Patriot National Bank in Virginia. Finally, Huttoe transferred approximately \$7.2 million out of this account by wire or check to various individuals or entities.

The Commission also announced that on January 21, 1997, at a hearing in the Commission's case against Huttoe and others in United States District Court for the District of Columbia, the Honorable Gladys Kessler granted in part the Commission's motion to amend its Complaint. The amended Complaint names eleven individuals and entities as relief defendants for the purpose of securing the disgorgement of more than \$12 million in illegal profits that the Commission previously alleged were obtained from the sale of SOE securities by Huttoe, members of his family and entities he controls (collectively the "Huttoe defendants"). The Court also granted the Commission's motion to amend the Complaint to add additional claims against defendants SGA Goldstar Research, Inc., Theodore Melcher, Shannon B. Terry, Alpha Securities Ltd. and Dunbar Holdings, Ltd. (collectively the "Goldstar defendants"). As amended, the Complaint alleges that the Goldstar defendants engaged in a systematic practice of publishing highly promotional investment recommendations for numerous issuers in exchange for compensation. The amended Complaint alleges that the Goldstar defendants failed to disclose either their compensation or whether they were selling their shares in the companies they were touting while they were recommending that subscribers to their newsletter purchase shares in those companies.

Previously the Court issued orders freezing the assets of the Huttoe defendants and the Goldstar defendants. The Court continued that emergency relief, which includes freezes on the funds transferred by the Huttoe defendants to the relief defendants, until the next hearing in this matter, which is set for March 7, 1997 at 9:30 a.m. See SEC v. Huttoe, et al., Lit. Rel. 15153 (November 7, 1996), Lit. Rel. 15185 (December 12, 1996). On October 7, 1996, the Commission issued an Order suspending trading in SOE securities for ten days. See Securities Exchange Act Rel. No. 37791 (October 7, 1996).

The Commission is cooperating with separate investigations in this matter carried on by the United States Attorney's Office for the Eastern District of Virginia and the Criminal Investigation Division of the Internal Revenue Service. □

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The Commission's investigation in this matter is continuing.□□

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.

LITIGATION RELEASE NO. 15617 / January 14, 1998

SECURITIES AND EXCHANGE COMMISSION v. SHELDON KRAFT, Civil Action No. 98-CV-00095 (GK) (D.D.C.)

UNITED STATES v. SHELDON KRAFT, Cr. 98-18-A (E.D. VA.)

The Securities and Exchange Commission ("Commission") today filed a Complaint against Sheldon Kraft (Kraft), 46, a New York City stock broker, in the United States District Court for the District of Columbia. This case is another in a line of significant Commission enforcement actions and/or criminal prosecutions arising from this wide-ranging investigation of microcap fraud involving Systems of Excellence, Inc. (SOE) and other issuers. The Complaint alleges that Kraft acted as the principal facilitator for Charles O. Huttoe (Huttoe), formerly the Chairman and CEO of SOE, in manipulating the market for the securities of that company. Simultaneously with the filing of the Complaint, Kraft consented, without admitting or denying the Commission's allegations, to an order enjoining him from violations of the securities registration and antifraud provisions of the federal securities laws, and requiring him to disgorge his illegal gains of \$3,193,337 from the manipulation of SOE securities, together with prejudgment interest. In satisfaction of the disgorgement judgment, Kraft will disgorge all of his assets except his residence and household items. The disgorged assets include \$1,107,000 in cash, plus certain real estate and claims that he has against his former employer. Any remainder of the disgorgement amount will be waived in light of Kraft's demonstrated inability to pay based on his sworn representations in his statement of financial condition. Kraft also agreed to a Commission order barring him from the securities industry and from participating in an offering of penny stock. The Commission's Complaint alleges the following:

Kraft met Huttoe in early 1995, and thereafter guided Huttoe throughout the manipulation of SOE. When SOE's original software business collapsed, Kraft found a high-tech video teleconferencing business to put into the SOE shell so as to make it attractive to investors. Thereafter, Kraft introduced Huttoe to his total world -- Kraft's network of brokers, market makers, and stock touters -- who Huttoe then bribed with SOE stock to manipulate the price of SOE. As a result of Kraft's introductions, Huttoe entered into such arrangements with five stock promoters who were to push sales of SOE stock to retail brokerage customers, three stock touters who would disseminate recommendations to purchase SOE via mass media and other means, and two traders at market making broker-dealer firms who agreed to support the price of SOE. As a result of these and other manipulative activities, SOE's stock price rose from pennies to \$4 9/16 per share in just a few months. In addition, Kraft directed Huttoe in establishing nominee accounts through which Kraft secretly sold more than 6.3 million shares of SOE stock for Huttoe into the inflated market, on which Huttoe realized proceeds of approximately \$9.62 million of his more than \$12.5 million of illegal profits derived from the SOE manipulation.

For his part in the SOE fraud, Kraft demanded compensation in the form

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of direct cash payments from Huttoe and free trading shares of SOE stock that he had Huttoe issue in the names of his nominees. Kraft also obtained kickbacks from the persons he introduced to Huttoe in the form of cash or a portion of the SOE stock Huttoe supplied them in exchange for carrying out their roles in the manipulation. Kraft then sold his free SOE stock -- a total of approximately 1.66 million shares -- into the inflated market through nominee accounts in the United States and Canada. In addition, in exchange for directing the illegal sales of SOE stock in Huttoe's nominee accounts, Kraft received his ordinary commissions, and a percentage of the proceeds from the sale of stock through Huttoe's nominee accounts. In total, Kraft made illegal profits of \$3,193,337 from his role in the SOE scheme.

The Commission's Complaint alleges that as a result of that conduct Kraft violated Sections 5 and 17(a) of the Securities Act of 1933, and Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder. The court order to which Kraft consented enjoins him from future violations of those provisions. Kraft also consented to the entry of a Commission order pursuant to Sections 15(b) and 19(h) of the Exchange Act barring him from association with any broker, dealer, municipal securities dealer, investment adviser or investment company, or participation in any offering of penny stock, based on the entry of the above injunction.

Also today in the United States District Court for the Eastern District of Virginia, Kraft pleaded guilty to a two-count criminal information charging him with one count of conspiracy to commit securities fraud and money laundering and one count of failure to file tax returns. Kraft's plea was in connection with, among other things, the fraud involving SOE.

Background

The Commission Prosecutions

The cases against Kraft are the latest in a series of actions that the Commission and criminal authorities have filed against a number of individuals and entities related to the manipulation of the securities of SOE and two other microcap companies. On November 7, 1996, the Commission filed a Complaint and obtained emergency relief against Huttoe and twelve other defendants, including SGA Goldstar Research, Inc., which disseminated a tout sheet over the internet, and its principals, Theodore R. Melcher, Jr. and Shannon B. Terry. See SEC v. Huttoe, Et Al., 96-CV-02543 (GK) (D.D.C.). Kraft was responsible for introducing Huttoe to SGA Goldstar. The Complaint alleged a massive ongoing market manipulation orchestrated by Huttoe in which he executed an unregistered distribution of tens of millions of SOE shares. The Complaint further alleged that Huttoe artificially inflated the price for those shares by issuing materially false press releases about nonexistent multimillion dollar sales of SOE products, filing false periodic reports with the Commission, and bribing with SOE stock persons to tout SOE stock, including Melcher and Terry. As a final part of the scheme, Huttoe, Melcher, and Terry then took advantage of the inflated market by dumping shares on unwitting investors. On January 29, 1997, the Commission amended the Complaint to allege that in addition to touting SOE stock, SGA Goldstar, Melcher, and Terry engaged in

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a systematic practice of publishing promotional coverage for other issuers in exchange for compensation. On November 25, 1997, Huttoe settled the Commission's action by consenting to an order permanently enjoining him from violations of certain provisions of the federal securities laws, barring him from acting as an officer or director of a public company, and requiring him to disgorge over \$12.5 million, the amount he derived from the SOE manipulation, provided that except for surrendering certain assets, payment of the full disgorgement amount was waived in light of his demonstrated inability to pay. Huttoe also consented to a Commission order barring him from the securities industry. The actions against SGA Goldstar, Melcher, and Terry are pending.

In a separate action filed on December 22, 1997, the Commission sued Barclay Davis, a Las Vegas, Nevada based penny stock promoter that Kraft introduced to Huttoe. See SEC v. Davis, Et Al., 97-CV-03056 (GK) (D.D.C.). The Complaint against Davis alleges that Davis entered the ongoing scheme to manipulate the market for SOE, and that Huttoe gave Davis unregistered shares of SOE stock to facilitate the use of a registered broker-dealer to push SOE stock on the public. The Complaint against Davis further alleges that he engineered the falsification by SOE of Commission filings, and that he arranged for his team, which included CPA Merle S. Finkel, to accomplish this. The Complaint against Davis also alleges that he used two other microcap companies that he controlled, Bio-Tech Industries, Inc. (Bio-Tech) (formerly Twenty First Century Health, Inc.) and Combined Companies International Corp. (CCIC), as vehicles for market manipulations. The action against Davis is pending. In another action, the Commission sued CPA Finkel, the former auditor of SOE, Bio-Tech, and CCIC alleging that on at least 13 occasions, Finkel issued materially false or inaccurate audit reports on the financial statements of these companies. See SEC v. Finkel, 97-CV-00505 (EGS) (D.D.C.). Finkel settled that action by consenting to a permanent injunction against future violations of certain provisions of the federal securities laws, and also consented to a Commission order denying him the privilege of appearing or practicing before the Commission as an accountant.

The Criminal Prosecutions

In terms of criminal actions, Kraft is the fifth individual to plead guilty to felony charges stemming from these matters. On January 31, 1997, Huttoe, who presently is incarcerated, was sentenced to a federal prison term of 46 months, followed by two years supervised release, and a \$10,000 fine, pursuant to a criminal information charging him with one count of securities fraud and one count of money laundering. On March 12, 1997, Finkel pleaded guilty to a criminal information charging him with one count of conspiracy to commit securities fraud and bank fraud, and is awaiting sentencing. On September 12, 1997, Melcher, who presently is incarcerated, was sentenced to a prison term of 12 months, followed by two years supervised release, and a \$20,000 fine, pursuant to a criminal information charging him with conspiracy to commit securities fraud. On December 22, 1997, Davis, who is awaiting sentencing, pleaded guilty to one count of conspiracy to commit securities fraud and bank fraud, and one count of money laundering.

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The Commission previously has issued a number of releases concerning

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these and other related matters. See Lit. Rel. 15600 (December 22, 1997); Lit. Rel. 15571 (November 25, 1997); Lit. Rel. 15490 (September 12, 1997);

Securities Exchange Act Rel. No. 38691 (May 29, 1997); Securities Exchange Act Rel. No. 38653 (May 19, 1997); Lit. Rel. 15286 (March 12, 1997); Securities Exchange Act Rel. No. 38345 (February 27, 1997); Securities Exchange Act Rel. No. 38260 (February 10, 1997); Lit. Rel. 15490 (January 31, 1997); Lit. Rel. 15185 (December 12, 1996); Lit. Rel. 15153 (November 7, 1996); Securities Exchange Act Rel. No. 33791 (October 7, 1996).

The Commission is cooperating with separate investigations in this matter carried on by the United States Attorney's Offices for the District of Nevada and the Eastern District of Virginia, and the Criminal Investigation Division of the Internal Revenue Service.

The Commission's investigation in this matter is continuing.

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- At the same time that Melcher was recommending the purchase of SOE stock through the Whisper Stocks newsletter, Melcher was selling his unregistered SOE stock into the public market through brokerage accounts in his name and that of Alpha Securities, Melcher's wholly owned Bahamian shell company.
- The Melcher Defendants, over a three-year period, engaged in a systematic practice of touting other companies in the Whisper Stocks newsletter in exchange for stock. Neither Melcher nor SGA Goldstar disclosed that they were being compensated for the promotional coverage or that they were selling their shares at the same time that they were recommending to investors that they buy the securities.

The Melcher Defendants agreed to settle the Commission's action, without admitting or denying the Commission's claims against them, by consenting to a permanent injunction against future violations of Sections 5(a), 5(c), and 17(a) of the Securities Act of 1933 ("Securities Act"), Sections 10(b) and 17(b) of the Securities Exchange Act of 1934 ("Exchange Act"), and Exchange Act Rule 10b-5. As part of the settlement, the Melcher Defendants agreed to disgorge, jointly and severally, \$3,300,015 plus prejudgment interest thereon; provided however, that after disgorging certain assets, including cash, securities, and real estate that are in the aggregate worth over \$2 million, the remainder of their disgorgement obligation will be waived based upon their inability to pay more as demonstrated by the representations in their sworn financial statement. Including assets to be disgorged by the Melcher Defendants, the Commission will have recovered approximately \$11 million from its enforcement actions related to the Systems of Excellence fraud. The Court-appointed Receiver is holding these funds for distribution to defrauded investors. The Commission and the Receiver hope to file a plan of distribution for the Court's approval within the next several months.

To date, six individuals have pleaded guilty to felony charges stemming from these matters and have been sentenced as follows:

- Huttoe received 46 months in prison, with two years of supervised release, and a \$10,000 fine, pursuant to a criminal information charging him with one count of securities fraud and one count of money laundering.
- Merle Finkel, the auditor for SOE, pleaded guilty to a criminal information charging him with one count of conspiracy to commit securities fraud and bank fraud. Finkel died prior to sentencing.
- Melcher received 12 months in prison, followed by two years of supervised release, and a \$20,000 fine, pursuant to a criminal information charging him with conspiracy to commit securities fraud.
- Barclay Davis, a stock promoter, pleaded guilty to one count of conspiracy to commit securities fraud and bank fraud, and one count of money laundering. Davis is currently awaiting sentencing.
- Sheldon Kraft a broker at Commonwealth Associates and then M.H. Meyerson, received three years of probation and six months of home

detention pursuant to a two-count criminal information charging him with one count of conspiracy to commit securities fraud and money laundering and one count of failure to file tax returns.

- Michelle Sotnikow, a stock promoter, received three years of supervised probation with special conditions of being barred from the securities industry, pursuant to a criminal information charging her with one count of conspiracy to commit securities fraud and defeat the lawful function of the Internal Revenue Service.

In a related matter, on May 30, 2000, the Commission revoked the registration of the common stock of Systems of Excellence, Inc. pursuant to Section 12(j) of the Exchange Act. The Order imposing the deregistration of SOE stock found that SOE failed to comply with Sections 5(a), 5(c), and 17 (a) of the Securities Act, Sections 10(b) and 13(a) of the Exchange Act and Rules 10b-5, 13a-1, 13a-11, and 13a-13 thereunder. Deregistration of SOE's securities will prevent further parties from acquiring the now defunct company and using its securities for use in future manipulations.

This enforcement action is part of the Commission's four-pronged approach to minimizing Microcap fraud: enforcement, inspections, investor education, and regulation. For more information about the SEC's response to Microcap fraud, visit the SEC's Microcap Fraud Information Center at <http://www.sec.gov/news/extra/microcap.htm>.

The Commission previously has made several announcements concerning these matters. See Securities Exchange Act Rel. 42616 (April 4, 2000); Lit. Rel. 16343 (October 27, 1999); Lit. Rel. 15996 (December 9, 1998); Securities Exchange Act Rel. 40509 (September 30, 1998); Lit. Rel. 15906 (September 24, 1998); Lit. Rel. 14900 (September 24, 1998); Lit. Rel. 15888 (September 18, 1998); Lit. Rel. 15677 (March 19, 1998); Lit. Rel. 15617 (January 14, 1998); Lit. Rel. 15600 (December 22, 1997); Lit. Rel. 15571 (November 25, 1997); Lit. Rel. 15490 (September 12, 1997); Lit. Rel. 15286 (March 12, 1997); Lit. Rel. 15490 (January 31, 1997); Lit. Rel. 15185 (December 12, 1996); Lit. Rel. 15153 (November 7, 1996); Securities Exchange Act Rel. No. 33791 (October 7, 1996).

<http://www.sec.gov/litigation/litreleases/lr16632a.htm>

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.

SECURITIES EXCHANGE ACT OF 1934
RELEASE NO. 40251 / July 23, 1998

The Securities and Exchange Commission announced the temporary suspension, pursuant to Section 12(k) of the Securities Exchange Act of 1934 (the "Exchange Act"), of over-the-counter trading of the securities of Infotex Holdings, Ltd. ("Infotex"), of Springfield, Virginia at 9:30 a.m. on July 23, 1998, and terminating at 11:59 p.m. on August 5, 1998.

The Commission temporarily suspended trading in the securities of Infotex because questions have been raised about the accuracy and adequacy of publicly disseminated information concerning, among other things, (1) the nature and value of current contracts which Infotex claims to possess, and (2) the relationship between Infotex and an analyst who recommended purchase of its shares.

The Commission cautions broker-dealers, shareholders, and prospective purchasers that they should carefully consider the foregoing information along with all other currently available information and any information subsequently issued by Infotex.

Further, brokers and dealers should be alert to the fact that, pursuant to Rule 15c2-11 under the Exchange Act, at the termination of the trading suspension, no quotation may be entered unless and until they have strictly complied with all of the provisions of the rule. If any broker or dealer has any questions as to whether or not he has complied with the rule, he should not enter any quotation but immediately contact the staff of the Securities and Exchange Commission in Washington, D.C. If any broker or dealer is uncertain as to what is required by Rule 15c2-11, he should refrain from entering quotations relating to Infotex's securities until such time as he has familiarized himself with the rule and is certain that all of its provisions have been met. If any broker or dealer enters any quotation which is in violation of the rule, the Commission will consider the need for prompt enforcement action.

If any broker-dealer or other person has any information which may relate to this matter, the Washington, D.C. office of the Securities and Exchange Commission should be telephoned at (202) 942-4766..

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[Home](#) | [Previous Page](#)**U.S. Securities and Exchange Commission****SECURITIES AND EXCHANGE COMMISSION****Litigation Release No. 16506 / April 7, 2000**

SECURITIES AND EXCHANGE COMMISSION v. ENTERPRISES SOLUTIONS, INC., et al., Case No. 00 Civ. 2685 (Cedarbaum, J.) (U.S.D.C., S.D.N.Y.)

SEC Files Securities Fraud Complaint Against Enterprises Solutions, Inc., Herbert S. Cannon, and Dr. John A. Solomon and Obtains Freeze on \$2.3 Million Proceeds From Related Stock Sales

On April 6, 2000, the Securities and Exchange Commission filed a securities fraud action against Enterprises Solutions, Inc. ("ESI"), Herbert S. Cannon, and Dr. John A. Solomon in the United States District Court for the Southern District of New York. The Commission also obtained an immediate asset freeze preventing the removal of more than \$2.3 million in assets from the securities accounts of two Gibraltar companies, Rowen House Limited and Montville Limited, which are named in the complaint as relief defendants. According to the complaint, ESI is a Nevada corporation claiming to have its principal place of business at defendant Solomon's home in Canton, Massachusetts, and defendant Cannon resides in Boca Raton, Florida. ESI claims to be in the business of developing products and encryption technology for Internet security, and has reported \$160,087 in total assets as of September 30, 1999 and \$328 in total revenues since January 1, 1998.

The Commission's complaint alleges that ESI was established, and has been secretly controlled, by defendant Cannon, a Florida stock promoter who has been convicted of felony fraud violations on two separate occasions, enjoined by federal courts in two prior securities fraud cases brought by the Commission, and barred by the Commission from the securities industry. The complaint further alleges, among other things, that ESI, Cannon, and Solomon have fraudulently concealed from the investing public Cannon's control of ESI, and that they have knowingly or recklessly made false and misleading claims about ESI's products and customers. During the relevant period, according to the complaint, defendant Cannon controlled the securities accounts of several offshore entities, including relief defendants Rowen House and Montville, through which he sold hundreds of thousands of shares of ESI stock into the market, some during a recent surge in the price and trading volume of the stock. After the price of ESI's stock rose from \$3 per share in January 2000 to more than \$20 per share on March 29, 2000, the Commission issued an order on March 30, 2000 temporarily suspending trading in ESI's stock until April 12, 2000. See Release No. 34-42593.

The Commission's complaint charges the defendants with securities fraud in violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder, and seeks injunctions, disgorgement, and civil penalties,

along with a constructive trust upon any and all proceeds from ESI stock sales being held in the brokerage accounts of the relief defendants.

The Commission acknowledges the assistance of NASD Regulation, Inc. in connection with this matter, and notes that its investigation is continuing.

This enforcement action is part of the Commission's four-pronged approach to attacking microcap fraud; enforcement, inspections, investor education and regulation. For more information about the SEC's response to microcap fraud, visit the SEC's Microcap Fraud Information Center at <http://www.sec.gov/news/extra/microcap.htm>. Information on trading suspensions is available at <http://www.sec.gov/enforce/tsuspend.htm>.

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U.S. Securities and Exchange Commission

SECURITIES AND EXCHANGE COMMISSION**LITIGATION RELEASE NO. 16543 / May 9, 2000**

SECURITIES AND EXCHANGE COMMISSION v. ENTERPRISES SOLUTIONS, INC., et al., Case No. 00 Civ. 2685 (Cedarbaum, J.) (U.S.D.C., S.D.N.Y.)

COURT GRANTS PRELIMINARY INJUNCTION EXTENDING FREEZE ON \$2.3 MILLION IN PROCEEDS FROM SALES OF ENTERPRISES SOLUTIONS STOCK

The Securities and Exchange Commission announced today that on May 1, 2000, in a securities fraud case brought by the Commission against Enterprises Solutions, Inc. ("ESI"), Herbert S. Cannon, and Dr. John A. Solomon, the United States District Court for the Southern District of New York entered an preliminary injunction freezing approximately \$2.3 million in assets held in the securities accounts of two Gibraltar companies, Rowen House Limited and Montville Limited, which are named in the complaint as relief defendants. The frozen assets represent proceeds from sales of ESI stock made shortly before the Commission issued an order, on March 30, 2000, temporarily suspending trading in ESI's stock. The Court's order extends until trial a temporary asset freeze obtained by the Commission when it filed its complaint on April 6, 2000.

The Commission's complaint alleges that ESI was established and secretly controlled by defendant Cannon, that the defendants fraudulently concealed Cannon's extensive role from the investing public, and that the defendants knowingly or recklessly made false and misleading claims about ESI's products and customers. It further alleges that, during the relevant period, Cannon controlled the securities accounts of several offshore entities, including the frozen accounts of Rowen House and Montville. The Commission's complaint charges the defendants with securities fraud in violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder, and seeks injunctions, disgorgement, and civil penalties, along with a constructive trust upon all proceeds from ESI stock sales being held in the Rowen House and Montville accounts. See Litigation Release No. 16506 (April 7, 2000).

A week before filing its complaint in federal court, the Commission issued an order, pursuant to Section 12(k) of the Exchange Act, temporarily suspending trading in the stock of ESI because of questions concerning the accuracy and completeness of assertions made by ESI in its filings with the Commission, in its recent press releases, and on its Internet website, including questions about the identity of persons in control of the operations and management of the company. See Release No. 34-42593 (March 30, 2000).

This enforcement action is part of the Commission's four-pronged approach to attacking microcap fraud: enforcement, inspections, investor education